



INTERNATIONAL  
INVESTMENT  
BANK

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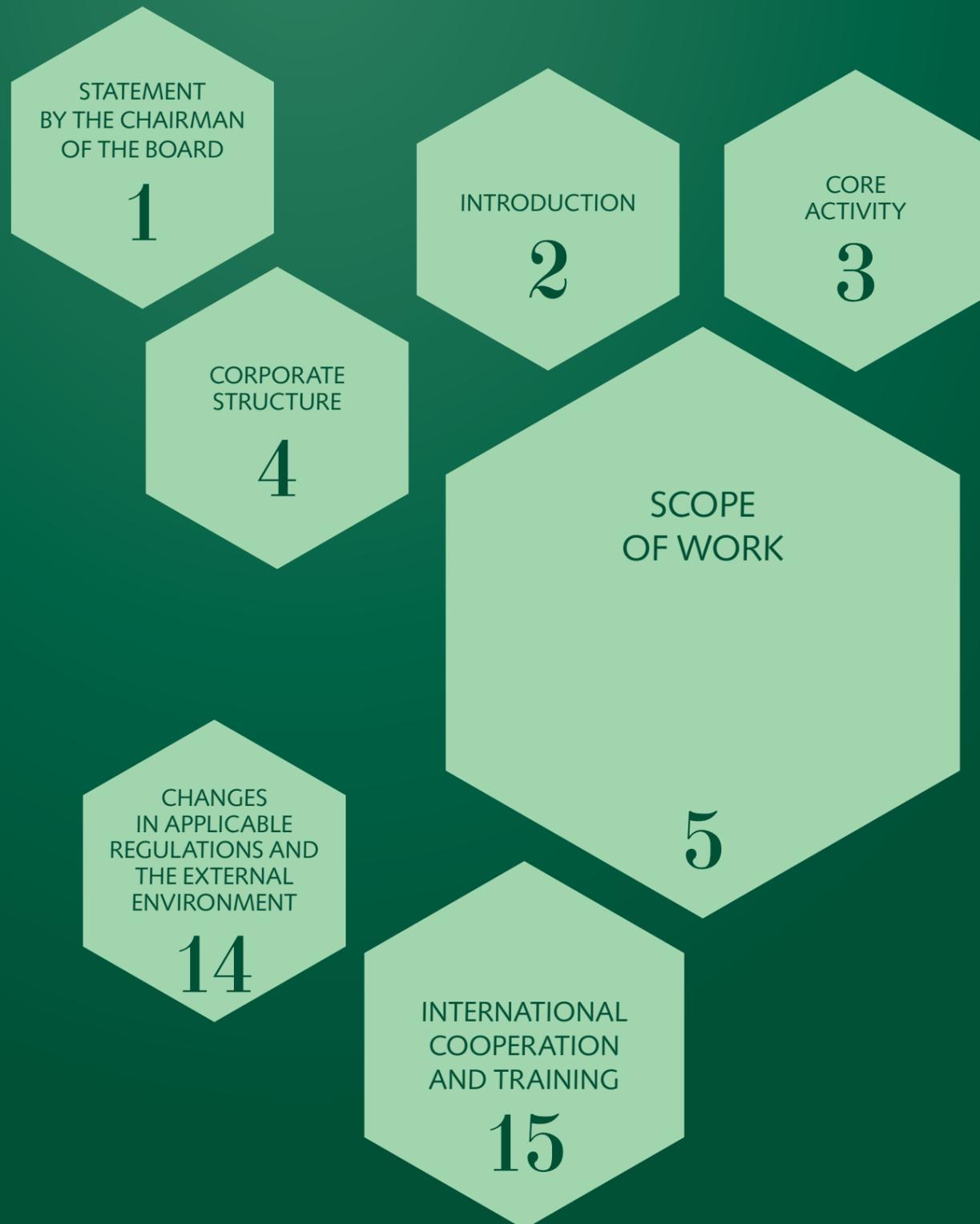
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COMPLIANCE  
ACTIVITY  
REPORT

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## STATEMENT BY THE CHAIRMAN OF THE BOARD OF THE INTERNATIONAL INVESTMENT BANK



Since the time of the relaunch at the end of 2012, the International Investment Bank has made considerable headway in reshaping and outpacing the forecasts for business development in accordance with the mission assigned to it, i.e. fostering socio-economic growth in member states.

Thanks to the efforts of management and the support of shareholders, the Bank has gained recognition in the international arena, enhancing the quality and scope of corporate and investment banking, expanding the resource base and rolling out promising new areas of business.

Undoubtedly, these achievements could not have been fully reached or consistently implemented at the Bank without the proper in-house environment and infrastructure, which, alongside the risk management system and internal control, has also included compliance since 2013. I would like to point out that building a compliance and control system in line with international practice and standards, a process performed by the Bank at the request of its shareholders, has become one of the key tasks in making the IIB a sustainable institution, and one which I have been in charge of personally.

I can confidently say that to date the level of compliance at the IIB is largely consistent with and, in certain areas, can even compete with the systems currently in place at other international financial institutions. A set of the highest level of documentation has been worked out and phased in for a number of areas, after having received approval from the Bank's shareholders. Furthermore, a set of internal documents has been approved to regulate the IIB's operations in order to counter money laundering derived from illicit activities, and the financing of terrorism, to prevent fraud and corruption, while managing conflicts of interest, dealing with insider information, offshore jurisdictions, and conducting KYC and DD procedures in relation to counterparties and projects under review.

I would like to note progress in compliance during 2016 as part of our collaboration with international financial institutions, especially in regards to sharing best practices and discussing promising areas of collaboration. Efforts to improve the Bank's approaches to customer identification procedures, risk assessment, as well as operations involving offshore jurisdictions in accordance with the new documents of international organizations (FATF, OECD) have been equally important.

I feel confident that the compliance and control standards adopted at the IIB are a reliable gauge of the bank's responsible, well-informed and safe handling of business in keeping with the business development strategy approved by its member states. In a market environment affected by volatility, geopolitical instability, new trends and initiatives in international legislation, IIB will strive to maintain its commitment to compliance and control at an advanced and mature level, consistent with the approaches adhered to by leading IFIs.



Nikolay Kosov,  
Chairman of the IIB Board

# INTRODUCTION



This Report has been prepared with the aim of providing all stakeholders with information on the key results of International Investment Bank's compliance control function in 2016. The Report summarizes the outcomes of the Department's activities and offers a detailed description of its role in identifying, monitoring and controlling compliance risks faced by IIB.



The Bank defines compliance risks as "risks of sanctions or substantial financial loss or damage to reputation IIB might face due to failure to perform or non-performance of established compliance rules".

The Bank recognizes internal and external policies, regulations and other regulatory documents and resolutions of the Managing Bodies of the Bank on issues related to corporate ethics norms, managing conflicts of interests, anti-money laundering and financing of terrorism and combating suspected corruption and fraud activities as key compliance rules.

The compliance Department identifies, evaluates and monitors integrity risks for all of the Bank's activities both internally on the staffing and business processes level and externally while cooperating with counterparties. Integrity risks are analyzed systemically during regular assessment and re-assessment of the compliance risks attributed to counterparties, as well as individually upon request to assess stand-alone operations, initiatives and new internal or external realities.

The Report summarizes the outcomes of the Department's activities and offers a detailed description of its role in identifying, monitoring and controlling compliance risks faced by IIB

# CORE ACTIVITY



The Department's main objective is to conduct activities aimed at identifying, preventing, eliminating and controlling any compliance risks arising in the course of the Bank's operations.

A description of the Compliance Department's (CD) key functions is provided in the IIB Regulation on Compliance Control.



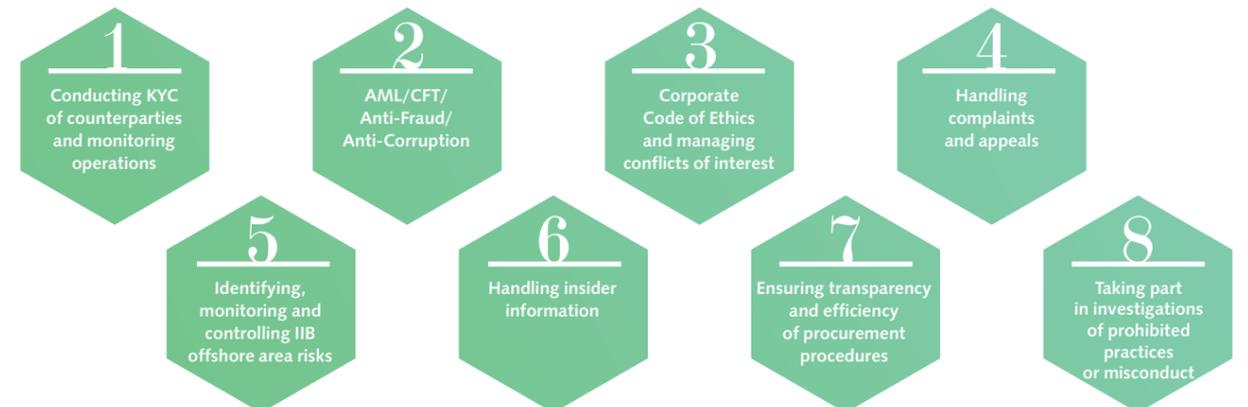
The Department's operation is aimed at building a compliance control system for the Bank that meets international standards and best practices in this field.

The Department pays special attention to the best practices of international organizations and development banks, including those created by IIB member states.

By developing the compliance control system, the Department aspires to maintain highly efficient operations, remain business-oriented and proactive in managing the risks assumed by the department, taking into account the strategic targets of IIB to carry out its mission as an international financial institution.

The Bank's daily operational work is related to providing the Department's consultations and opinions on the issues being considered (approving drafts of regulatory documents, agreements, questionnaires, and reviewing and presenting materials for consideration by committees and the Board). CD representatives are members of several collective bodies of the Bank and work in close cooperation with expert divisions of the Bank. They are entitled to attend Board meetings and regularly report to the Chairman of the Board of the Bank.

## The Department's core activities



# CORPORATE STRUCTURE

The Compliance Department was established in December 2012, as per recommendation of the IIB Audit Committee and Resolution of the 98<sup>th</sup> Meeting of the IIB Council. This was one of the first moves to relaunch the Bank as a modern multilateral development institution.

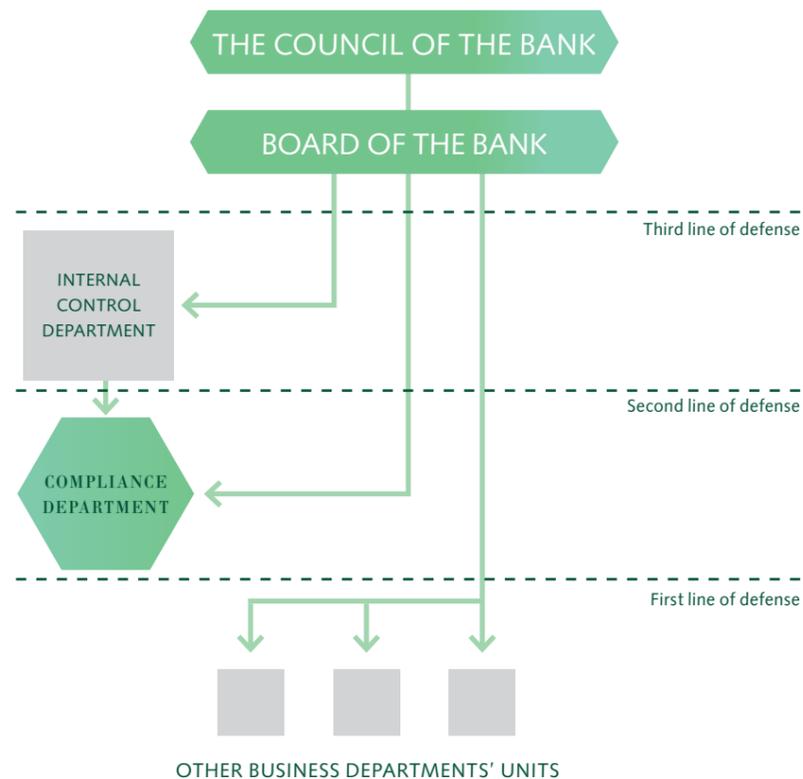
The Department is a standalone structural unit, independent from other divisions of the Bank, and directly reporting to the Chairman of the IIB Board.

The Head of the Department and a compliance officer are the full-time personnel of the Department. Throughout the year young specialists – graduates of the top ranked Moscow universities – were also engaged in the Department's work.

**Units and committees cooperating with the Department:**

- Credit Committee
- Procurement Committee
- Finance Committee
- The Board
- Lending and Investment Unit
- Treasury Unit

## Organizational chart



# SCOPE OF WORK

## ANTI-MONEY LAUNDERING, COMBATING THE FINANCING OF TERRORISM, FRAUD AND CORRUPTION

During 2016, CD conducted 272 KYC procedures. Additionally, CD conducted KYCs for existing counterparties and those engaged in the Bank's projects as third parties or participants (surveyors, insurers, advisers, appraisers, etc.).

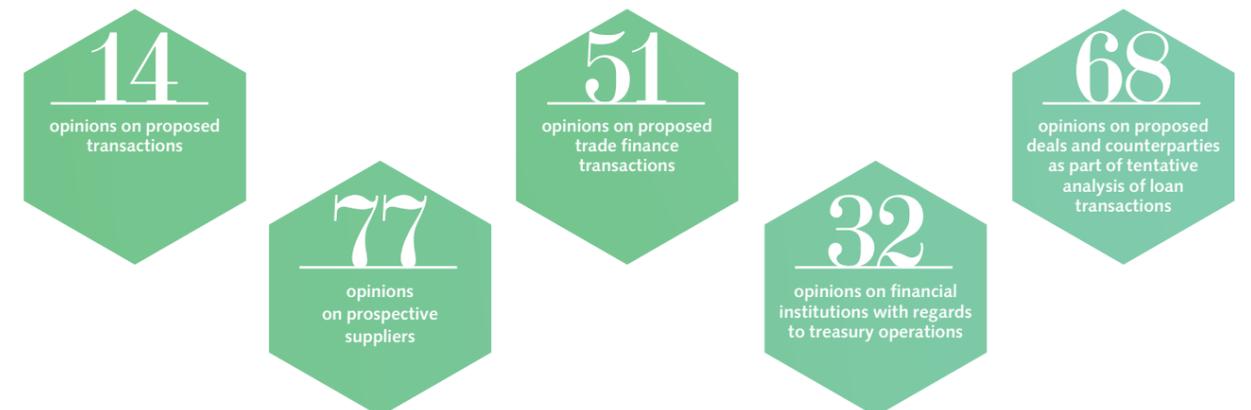
For counterparties with increased compliance risks, CD interviewed their management and persons responsible for organizing compliance control (a total of 6 interviews).

To identify and assess the counterparties' existing compliance risks, CD uses both public sources of information and commercial databases.

**272**  
KYC procedures conducted CD, in 2016

To audit the counterparties, CD has access to SPARK, CBONDS, LN, WC, Factiva DJ systems, as well as national registers of legal entities in a number of member states.

### During 2016, CD produced:



During 2016, CD continued performing activities to identify and prevent fraud and corruption, both inside the Bank and in respect to counterparty transactions. When fraud and corruption risks were identified, the situations were escalated to the Chairman of the Board. Nevertheless, none of the corruption/fraud suspicions (excluding legacy loans) was confirmed. No proof of fraud or corruption risks actually occurring or the Bank getting involved in such activities in 2016 were identified.

At the end of 2015, IIB joined the Uniform Framework for Preventing and Combatting Fraud and Corruption, developed by leading international financial institutions.

**In this regard, in 2016 CD prepared a new version of the Policy on Combating Money Laundering, Financing of Terrorism, Fraud and Corruption.**

In 2016, the Compliance Department updated the Regulation on Measures to Combat Money Laundering, Financing of Terrorism, Fraud and Corruption. The Regulation was updated to reflect IIB's substantial progress in automating the KYC process and calculating AML/CFT/F/C risk groups, and automating counterparties' vetting against black/gray lists and sanctions lists. Further, to ensure that the benefits of the risk-oriented approach are used more efficiently, the questionnaires sent to counterparties were also updated.

In 2016, CD updated the standard compliance clauses that the Bank includes in loan agreements with its borrowers. The texts were expanded in terms of IIB's rights and contractors' liabilities and unified to meet requirements of the Uniform Framework for Preventing Fraud and Corruption.

**A mandatory prerequisite to any transaction involving a Counterparty is completing a KYC procedure, identification and measurement of any associated compliance risks**

## Statement by the Chairman of the Board

### Statement by the Chairman of the IIB Board

In September 2006, the leaders of the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the European Investment Bank, the International Monetary Fund, the Inter-American Development Bank and the World Bank unanimously decided to apply in their activities the Uniform Framework for Preventing and Combatting Fraud and Corruption elaborated by the Joint International Financial Institutions Anti-Corruption Task Force.

Hereby the IIB declares its decision to apply and endorse in its operations and transactions the abovementioned Uniform Framework for Preventing and Combatting Fraud and Corruption. The IIB intends to use in the best way possible the opportunities and instruments provided by the Uniform Framework in order to most effectively identify, prevent, combat and penalize corrupt and fraudulent practices.

To ensure high ethical and integrity standards and to protect investments from compliance risks, the IIB plans to, jointly with other international financial institutions, develop proposals for improving common approaches to prevention of prohibited practices.

By this statement, the IIB formally endorses the attached Uniform Framework for Preventing and Combatting Fraud and Corruption.

Attachment: Uniform Framework for Preventing and Combatting Fraud and Corruption



Chairman of the IIB Board

Nikolay Kosov

## SCOPE OF WORK

### PROCUREMENT

With the aim of preventing fraud in IIB investment projects, where procurement is required using the Bank's funds, CD has developed a Policy for Procurement Activities of Private Sector Organizations Financed by IIB, which was approved by the Board of the Bank. This document sets IIB's key requirements to procurement activities performed by Bank's borrowers from among non-governmental enterprises.

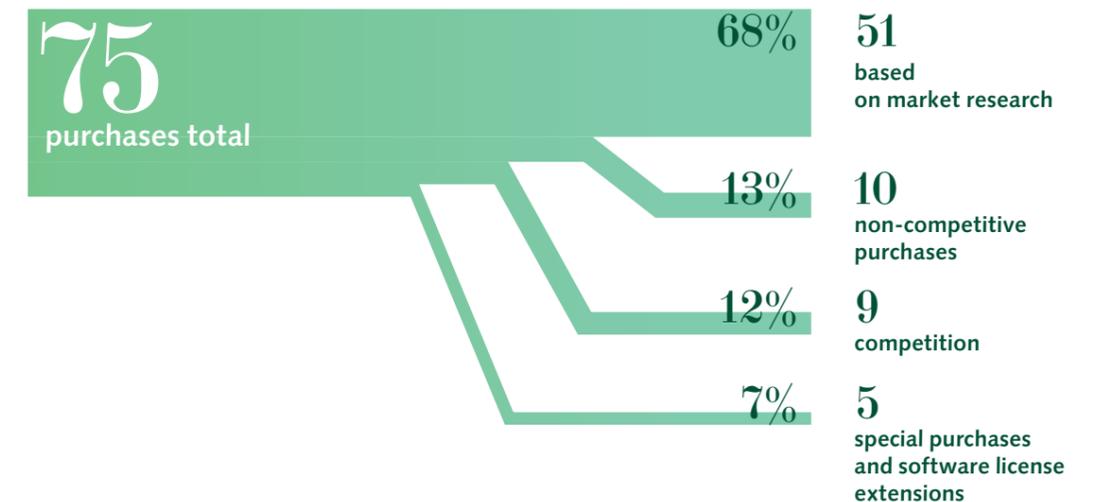
**The competencies and composition of the Procurement Committee were reinforced in 2016.**

CD carries out KYC procedures of the Bank suppliers and participates in the IIB procurement process to ensure established principles.

#### Principles of IIB procurement activities



#### Number of purchases by types



## Amount of purchases reviewed (mln EUR)



## TRAINING AND WORKING WITH THE STAFF

CD provides in-person training to all new employees of the Bank and conducts annual refresher training on compliance risks. In 2016, the Compliance Department conducted exit interviews with 7 employees leaving the Bank. Additionally, CD consulted a number of employees being dismissed or transferred by the Bank about the observance of their rights in accordance with the values and regulations of the Bank as stated in its Corporate Ethics Code.

Overall in 2016, the Bank hired 27 new employees, whose responsibilities were related to compliance risks. For this category of employee, the CD conducted induction trainings on compliance.

Special training sessions were also organized for new members of the IIB Board.

With the aim of preventing possible fraud risks, CD conducted a series of specialized seminars for the Bank's employees in 2016, reviewing IIB's troubled loans showing signs of fraud. Proposals obtained as a result of these seminars were used to improve the IIB lending procedures.

As part of the trainings on AML/CFT/F/C, CD informs the Bank's employees on the latest trends observed at the international level and among IIB member states, as well as on any measures that need to be taken to prevent corruption and fraud. For this purpose, in 2016 CD updated presentation materials on combating corruption and fraud and expanded the training program.

A total of 131 out of 135 employees have completed AML/CFT training.

Major events in the area of compliance control and changes in the compliance policy were covered on the Bank's website in the respective news and dedicated sections 2016.

**97%**  
of employees,  
who are in direct  
contact with  
counterparties  
and clients completed  
AML/CFT measures

## SCOPE OF WORK

## COMPLIANCE PROCESS AUTOMATION

Know-Your-Customer process automation project was one of the priority tasks for the Compliance Department in 2016. As a result, in late 2016 CD started using the Automated Banking System as the key tool for identification and measurement of contractors' compliance risks. The Department also launched a basic functionality to interact with Account Managers with the aim of setting and handling the tasks for the Compliance Department, and started automatic preparation of opinion forms templates.

Automation of the KYC procedure substantially increased the efficiency of counterparty audit procedures by reducing labor costs related to vetting against various databases; it allowed the Bank to create a more reliable and efficient system to identify compliance risks related to various contractors and transactions.

In 2016, CD completed several rounds of training seminars with IIB employees on the procedure of working with the automated compliance system. Representatives of all of the Bank's units underwent training. A detailed instruction on working with the new software was also developed.

CD initiated a number of modifications to the software with the aim of minimizing insider fraud risks and reducing operational risks related to incorrect data entry.

In 2016, the contractor screening procedure was automated to match the data from WorldCheck compliance reference database. This modification substantially reduced CD's labor costs related to auditing counterparties and their related entities.

An important step in the development of the internal compliance reporting system was the creation of a corporate Data Warehouse. This instrument allows CD staff to receive and provide the Bank's management with latest updates on the status of compliance risks and take the necessary preventive actions based on the outcomes of the performed analyses.

Know-Your-Customer process automation project in the AML module of the new software system was one of the priority tasks for the Compliance Department in 2016

## WorldCheck Database

Тип св...	Наименование WD	Гражданство WD	Дата рожд...	Страна рождени...	Наименование AML	Гражданство A...	Дата рожд...	Страна рождени...
Новая	SK AZHК (АКЦИОНЕРНОЕ ОБЩЕСТВО СТРАХ...	RUSSIAN FEDER...			ОАО «Агентство по ипотечному жилищному ...	РОССИЯ		
Новая	MESHCHANOV Sergey(МЕЩАНОВ,Сергей Викт...	RUSSIAN FEDER...	1982/00/00		Мещанов Сергей Викторович		1982/01/01	
Новая	MIZGULIN Dmitry(МИЗГУЛИН,Дмитрий Алекс...	RUSSIAN FEDER...	1961/09/10	Murmanak, Murm...	Мизгулин Дмитрий Александрович			
Новая	INTERNATIONAL BILLS FINANCE CORPORATION	TAIWAN			International Finance Corporation	СООБЪЕДИНЕННЫЕ ...		
Новая	INTERNATIONAL BILLS FINANCE CORPORATION	TAIWAN			International Finance Corporation (IFC)	СООБЪЕДИНЕННЫЕ ...		
Новая	TARPIG FINANCIAL HOLDINGS COMPANY LIMIT...	HONG KONG			Renaissance Financial Holdings Limited	БЕРМУДЫ		
Новая	HEU-TREND INVEST KORLATOLT FELELOSSEG...	HUNGARY			H-BUILD-INVEST Korlatolt Felelossegu Tarasag	ВЕНГРИЯ		

## CORPORATE ETHICS CODE

During 2016, the Compliance Department, with support from other departments and the Bank's top management, took part in addressing the situations that could potentially result in a violation of the Ethics Code.

A total of 6 important situations were handled in 2016, that could potentially result in a conflict of interest. For each case, specific actions aimed at avoiding the conflict of interest were developed and implemented. Until now, the occasions and risks of the conflict of interest identified have not resulted in any substantial negative outcomes.

# 6

important situations were handled in 2016, that could potentially result in a conflict of interest

In 2016, CD was approached by an employee of IIB responsible for working with the Bank's counterparties under the social program. He reported that one of the regular contractors offering tourism and recreation services for the Bank's employees offered him a personal discount on an upcoming tourist

service. Understanding that acceptance of the proposal might result in a conflict of interest, the IIB employee referred this offer to the Compliance Department. The situation was considered and the discount was raffled among the IIB employees.

## COMPLAINTS AND APPEALS

In 2016, CD published a new version of the Procedure for Receiving and Reviewing Information on Violations within IIB, which was updated to reflect IIB's obligations to bring internal regulatory documents in compliance with the requirements of the Uniform Framework for Preventing and Combatting Fraud and Corruption.

Reports on violations within IIB or within projects where the Bank is involved can be received via several channels: the internal document flow system, by mail, by email: [compliance@iibbank.com](mailto:compliance@iibbank.com), and via an online form at the IIB website: [iib.int](http://iib.int).

All persons reporting the violations are guaranteed complete anonymity.

No reports were received in 2016 regarding violations or forbidden practices within IIB.

### The electronic form on violation

Report abuse

The Bank approved the procedure for acceptance and consideration of reports of violations which you can send a message to the Compliance Department of corruption, fraud and other work of the IIB by filling in the attached form below.

Your full name  
Company name  
Position in company  
Address  
Postal code  
City  
Country  
Phone number  
E-mail

Would you like us to contact you?  Yes  No

Would you like to receive a response to your message?  Yes  No

Would you like your information to remain confidential?  Yes  No

Fraud, corruption, money laundering and terrorist financing in the IIB

Attachments (documents or other materials supporting the information contained, optional format: doc, xls, pdf, zip, png, etc.)

What do you expect the results upon consideration of your message?

1a | 45

Enter the numbers you see

Send

## SCOPE OF WORK

## GIFTS

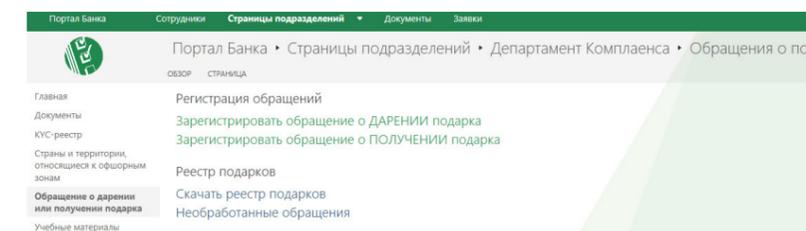
In 2016, CD published the Procedure for Receiving and Giving Gifts and launched an online form to exchange information between participating units on any gifts received or given. This document details IIB requirements for employees with regards to handling gifts and mitigating the associated risks of conflicts of interest.

An electronic system was created to record all reports on gifts received and given.

In 2016, CD received one report on receiving a gift of more than 100 EUR, which was handled in accordance with the existing procedures.

The Compliance Department is informed about all given and received priced at more than 100 euro. If a gift is given to or received by a PEP, the Compliance Department is informed regardless of the price.

### Electronic system of registration of appeals about gifts



## INSIDER INFORMATION AND THE BANK'S INSIDERS

Since IIB issues exchange-traded securities, CD monitors insiders and processes information received from them. A total of about 90 insiders were registered in the Bank as of the end of 2016, which includes both individuals and legal entities. These persons are being monitored for meeting the criteria applied to insiders.

The list of insiders was expanded in 2016, to bring the IIB Regulation on the Procedure of Handling Insider Information in compliance with the current situation, where a substantially larger number of persons have access to insider information. The updated list includes representatives of the collective bodies of the Bank and the Audit Committee. CD is working with these persons to inform them about their inclusion on the list of insiders.

Categories of persons classified as the bank's Insiders:

- External Auditors
- Legal advisors
- Ratings Agencies
- Arrangers of the Bank's financial offerings
- Members of the Audit Committee
- The Bank's Department Heads and their Deputies

# CHANGES IN APPLICABLE REGULATIONS AND EXTERNAL ENVIRONMENT



During 2016, CD exercised regular monitoring of changes in the international legislation.

Special focus was given to tracking, reviewing and escalating to the management any changes in the sanction regulations that affect IIB's operations. The Bank's prospective transactions and contractors were audited for meeting sanction restrictions; when necessary, CD prepared recommendations on rejecting transactions, abandoning cooperation with a contractor or changing the transactions' parameters.

CD has been providing support to units with the aim of identifying FATCA risks. 2H 2016, CD managed to ensure that all contractors the Bank had been working with provided all relevant certificates and information on FATCA to IIB.

The monitoring of offshore jurisdictions and their classification by categories was conducted in 2016, based on the updated OECD and IIB member states' ratings.



CD routinely monitors changes in regulatory documents related to compliance and control, as issued by FATF, OECD, the Basel Committee on Banking Supervision, as well as financial market regulators and financial intelligence services in IIB member states, and other international organizations (best practice).

In particular, in 2016 CD completed a review and adaptation of IIB regulatory requirements for compliance with the Basel Committee regulation on Correspondent Banking payments.

Special attention was paid to the issues of tax evasion/avoidance and introducing the new OECD Common Reporting Standard to exchange data and disclose tax information.

## Sanction relations



**INTERNATIONAL INVESTMENT BANK**  
45 years

7 Mashkova street, Moscow  
Phone: +7 (495) 604-73-00  
Fax: +7 (499) 975-20-70  
E-mail: mail@iibbank.com

**The IIB is explicitly excluded from the list of financial institutions, to which restrictive measures of the Council of the European Union are applied**

\*It is also appropriate to apply restrictions on access to the capital market for certain financial institutions, excluding Russia-based institutions with international status established by intergovernmental agreements with Russia as one of the shareholders.

(5) preamble, Council Regulation (EU) No 833/2014 of 31 July 2014

## Organizations the bank focuses on



# INTERNATIONAL COOPERATION AND TRAINING



In 2016 CD continued to participate in international collaborations in the area of compliance, including measures to promote the application of best compliance practices both within the Bank and externally.



CD representatives took part in numerous compliance-related activities conducted by leading service providers and professional associations (LexisNexis, Thomson Reuters, Association of Certified Fraud Examiners, etc.) in 2016.

CD also continued developing and expanding contacts with IFI compliance representatives in 2016. In October, CD attended the 17<sup>th</sup> conference of compliance officers specializing in investigations (CII). Working meetings were held with the heads of compliance departments at leading IFIs, with the aim of coordinating joint efforts to develop compliance culture and to distribute best practices.

In 2016, CD conducted a survey among key employees and top management of the Bank to assess their satisfaction with the work of the compliance control function. The responses and feedback were generally positive. Most of the respondents ranked the availability of compliance documents, quality of CD consultations, and compliance development level as high, while ranking compliance control requirements as completely reasonable.



In conclusion, CD would like to express gratitude and acknowledgment to all units and top management of the Bank who took active part in the development and support of IIB's compliance control system in 2016.



17<sup>TH</sup> CONFERENCE OF THE FI CII OFFICERS, October 2016

7 Mashi Poryvaevoy St., Moscow  
107078, Russian Federation

+7 (495) 604-75-80

[www.iib.int](http://www.iib.int)  
[compliance@iibbank.com](mailto:compliance@iibbank.com)

